

REPORT TO THE CITY COUNCIL BY THE CITY INTERNAL AUDITOR

AUDIT OF THE DEPARTMENT OF OPERATIONAL SERVICES, STREETS AND DRAINAGE DIVISION

INTERNAL AUDIT REPORT (IAR) 080308-06

February 27, 2008



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Councilman Joe Shyne
Chairman, Shreveport City Council

Dear Councilman Shyne:

Subject: IAR080308-06 - Audit of the Department of Operational Services, Streets and
Drainage Division

Attached please find the report mentioned above. Management comments are included in the report.

Sincerely,

Leanis L. Graham, CPA, CIA
City Internal Auditor

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**EXECUTIVE SUMMARY
AUDIT OF THE
DEPARTMENT OF OPERATIONAL SERVICES
STREETS AND DRAINAGE DIVISION
INTERNAL AUDIT REPORT (IAR) 080308-06**

The purpose of the executive summary is to convey in capsule form the significant issues of the audit report. The executive summary is a vehicle for reviewing the report and should only be used in conjunction with the entire report.

INTRODUCTION

Streets and Drainage is responsible for the maintenance of streets, alleys, roadside ditches, and drainage canals within the City. Assets maintained include 632 miles of concrete streets, 930 lane miles of asphalt streets, two lane miles of penetration-sealed streets, 930 miles of roadside ditches, and 408 miles of major drainage canals and ditches.

RECOMMENDATION EVALUATION RISK CRITERIA

The chart below summarizes recommendations outlined in the report and our evaluation of risk for the recommendations. We evaluated the importance of each audit recommendation by assigning each a level of risk. The risk levels, as defined in the chart below, were determined based on the possible results for the entity if the recommendation is not implemented.

Risk Levels	Recommendations
High Risk Possibility of fraud, waste, and abuse of City assets; Interrupted and/or disrupted operations; Entity's mission not being met; Adverse publicity.	<ul style="list-style-type: none">• Ensure that adequate supply management guidance procedures and controls are adopted to ensure proper accountability of operating assets and related supplies. Develop adequate written guidelines addressing the need for viable maintenance and inventory control procedures. (Findings 1 and 2)
Medium Risk Possibility of continuing, significant operating inefficiencies and high-level non-compliance issues.	<ul style="list-style-type: none">• Develop physical security measures that limit accessibility of personnel and traffic to asset storage areas. Also, ensure that removal of supplies and equipment from the yard area is permitted only by authorized personnel and under adequate supervision. (Finding 3)
Low Risk Possibility of continuing operating inefficiencies and some low-level non-compliance issues.	<ul style="list-style-type: none">• Ensure that discrepancies pertaining to automated system equipment assets are promptly reported to the Information Technology Division for corrective action. (Finding 4)

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OBJECTIVE

We have completed an audit of the Department of Operational Services, Streets and Drainage Division. The objective of the audit was to determine the economy and efficiency of operations of the division.

SCOPE AND METHODOLOGY

Our audit was performed in accordance with generally accepted governmental auditing standards as defined in Section A.20 of the Internal Audit Office Operating Instructions Manual. The scope of the study of internal control was limited to the general controls surrounding our objectives for the years 2005 to 2007. Audit procedures applied included the following:

- Reviewing applicable records and documents.
- Interviewing appropriate operating personnel and management.
- Observing operations.

BACKGROUND

Streets and Drainage is responsible for the maintenance of streets, alleys, roadside ditches, and drainage canals within the City. Assets maintained include 632 miles of concrete streets, 930 lane miles of asphalt streets, two lane miles of penetration-sealed streets, 930 miles of roadside ditches, and 408 miles of major drainage canals and ditches.

CONCLUSIONS/FINDINGS/RECOMMENDATIONS

We wish to express our sincere appreciation to Streets and Drainage Division employees for their invaluable assistance during the course of our fieldwork.

Based on the results of our audit, we believe that an adequate system of control is in existence over the areas examined with the exception of the findings specifically noted below. We also believe that management could enhance the control environment by addressing the following discrepancies:

- Ensure that adequate supply management guidance procedures and controls are adopted to ensure proper accountability of operating assets and related supplies.

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- Develop adequate written guidelines addressing the need for viable maintenance and inventory control procedures.
- Develop physical security measures that limit accessibility of personnel and traffic to asset storage areas. Also, ensure that removal of supplies and equipment from the yard area is permitted only by authorized personnel and under adequate supervision.
- Ensure that discrepancies pertaining to automated system equipment assets are promptly reported to the Information Technology Division for corrective action. Related asset acquisition and maintenance data should be adequately recorded in a timely manner.

1. Controls Over Equipment and Supply Assets

Background: The majority of assets maintained by the division consisted of construction tools and individual safety items.

Criteria: In order to maintain established levels of equipment and supply items needed to provide services, a good system of controls should be established to facilitate their accountability and management.

Condition: Procedures in effect over the control and use of supplies and equipment procured by the division were in dire need of management attention.

- Physical inventory records used to positively account for equipment in use were inadequate and/or often non-existent. A random sample inventory of tools and supplies available showed that balances on hand, acquisition costs, procurement and use, and physical descriptions were incorrectly stated. Records maintained accounted only for new supplies on-hand. Equipment and/or tools in use were not included in those records. We noted a 70 % discrepancy rate when comparing asset records maintained to our sample physical count.
- Discussions with operating employees indicated that reconciliations of supplies on hand were not being conducted to ensure adequate accountability of items in use.
- Documentation evidencing the acquisition and usage of supplies and equipment was prepared but not recorded onto appropriate accountability files. Forms prepared as the result were simply deposited in boxes labeled with the year, with no further action. The latter were not arranged in any particular use sequence. (See photograph on the following page depicting the document filing system at the time of our field work.)

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- We observed on various occasions that accessibility of employees to supply areas was not adequately restricted.
- We observed that issuance of supplies and equipment to employees was not adequately documented and controls over personal supplies and accessories were questionable.

Effect:

- Adequate control over property owned by the division could not be established.
- Adequate controls over supplies procured and used could not be established.
- Supplies and equipment could be easily lost or stolen.
- Fraud and abuse may not be detected in a timely manner.

Cause: No policy in place established for effective reconciliation of supplies.

Recommendation: The Deputy Director, Streets and Drainage Division, should ensure that adequate supply management guidance procedures and controls are adopted to ensure proper accountability of operating assets and related supplies. The following areas should be considered in improving the current situation:

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1. A physical inventory of all assets maintained by the division should be conducted as soon as possible and the results adequately recorded.
2. Operating personnel should become better informed regarding their responsibilities to account for division assets and supplies more accurately.
3. Responsible employees should ensure that each supply transaction effected requires adequate documentation and necessary recording onto applicable records, as necessary.
4. Inventory records should accurately indicate actual balances on hand, acquisition costs, procurement and use, and physical descriptions.

Management Plan of Action: In order to maintain control over equipment and supply items and to show accountability, the following guidelines are being implemented.

1. A physical inventory of all the Division's assets was completed December 2007.
2. A Directive for operating personnel in the Equipment and Supply Shop will be written detailing their responsibility for keeping accurate records of the Division's assets and supplies.
3. A Directive will be done through Ernie Negrete, Superintendent of Streets & Drainage, to the Equipment and Supply Shop personnel regarding proper documentation of each supply transaction.
4. Inventory records indicating physical descriptions, actual balances on hand, acquisition costs, and procurement use are currently being placed in Lotus Approach on a daily basis. Due to the remote location of the Equipment and Supply Shop and its wiring system, the City's Information Technology's technician is currently implementing a plan to connect the system to the City's LAN system. The cost for connecting to the LAN system will be approximately \$6,000. No projection date can be given at this time.

Timetable: The approximate time of completion for this category, Controls over Equipment and Supplies, will be June 2008.

2. Small Engine Repair Shop Operation

Criteria: The division maintains numerous equipment items that require constant maintenance and repair actions. The vast majority of items maintained are highly pilferable. For example, the small engine repair shop repairs lawn mowers, blowers, chain saws, weed eaters, etc.

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Condition: Procedures in effect to account for, manage, and maintain small assets entrusted to the division were inadequate. Our tests and observations showed the following deficiencies:

- Inventory records were not being maintained to positively account for all equipment in use.
- Assigned employees maintained a work schedule that included the monitoring and repairing of property in use. However, they did not maintain adequate documentation of their actions (e.g., identification number of equipment repaired, description of problem, date completed, and cost of materials and labor). Instructions outlined in Division Directive 020, *"Equipment Repair, (Small Engine Shop),"* were not being complied with. Budgetary documents for 2007 indicated that \$15,528 was allocated to the division for its small engine repair operation. As of December 6, 2007, \$8,743 had been spent. Although the amount had not been exceeded, documentary evidence of its expenditure should have been apparent.
- Although large quantities of repair parts were used in daily operations, an inventory of replacement parts on-hand was not maintained.
- Although maintenance repairs were sometimes performed on equipment owned by other DOS divisions, documentation of the extent and cost of such actions was not made a matter of record.

Effect:

- Adequate control over property owned by the division could not be established.
- Equipment maintenance schedules were not maintained.
- The extent of repairs and cost to equipment from other divisions was not documented.

Cause: Lack of compliance with established written guidelines.

Recommendations: The Deputy Director, Streets and Drainage Division, should develop adequate written guidelines addressing the need for viable maintenance and inventory control procedures.

Management Plan of Action: Guidelines are being written to address the need for workable maintenance and inventory control procedures.

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1. A physical inventory of the Small Engine Repair Shop was completed in December 2007; however, compartment shelves for parts are being constructed.
2. A Directive for operating personnel in Small Engine Repair Shop will be written stating their responsibility for keeping accurate records of the Division's assets and supplies and equipment maintenance schedules.
3. A Directive will be done through Ernie Negrete, Superintendent of Streets & Drainage, to the Small Engine Repair Shop personnel regarding proper documentation of each repair transaction, daily inventory of replacement parts on hand, and the restrictive and limited

entry into the Small Engine Repair Shop. Entry will only be admissible for Small Engine personnel, Superintendent, Assistant Superintendents, and Chief Supervisors.

4. A computer will be installed and small engine mechanics will be responsible for maintaining inventory records of all repair transactions, physical description of repairs, DOS Divisions' location sites, acquisition costs, and procurement use. This inventory will be placed in the Lotus System with LAN access.

Timetable: The approximate time of completion for this category, Small Engine Repair Shop Operation, will be June 2008.

3. Physical Accessibility Practices

Criteria: The division maintains highly valuable amounts of equipment and supplies in its operating yard. To ensure its physical protection, management must incorporate physical security actions to ensure that removal of any assets from the premises is properly authorized and supervised.

Condition: We noted that security measures in effect for accessibility to the Streets and Drainage equipment yard area during regular duty hours were deficient. The yard compound consists of two unrestricted areas; one for the storage of construction and other related assets and another for employees to park their privately-owned vehicles. We observed that a variety of vehicles, private and City-owned, often entered and exited various areas where supplies and equipment were maintained. Official vehicles containing supplies and equipment intended for assigned jobs were routinely observed operating out of the premises without the benefit of appropriate supervision.

Impact:

- Possible loss of control over supplies and equipment assets.

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- Indiscriminate occurrences of fraud, waste and abuse of city resources.
- Monetary loss of already stringent budgetary resources.

Cause: The division had not developed guidelines addressing physical control measures.

Recommendations: The Deputy Director, Streets and Drainage Division, should develop physical security measures that limit accessibility of personnel and traffic to asset storage areas. Also, a system should be developed to ensure that removal of supplies and equipment from the yard area may only be exercised when properly authorized by designated supervisory personnel.

Management Plan of Action: Physical security plans are being developed, which will include two restrictive parking areas, to limit accessibility of personnel and traffic to asset storage areas of the compound.

1. One restrictive parking area is being designated strictly for the Streets & Drainage Division's employees to park their privately owned vehicles, and this area will have approximately 190 parking spaces as well as a walk-thru gate and a drive-thru gate available for their use. Claiborne Avenue will be the only accessible entry and/or exit route to the employee parking area.
2. The other restrictive parking area is being designated for City-owned work vehicles and equipment. Once funding becomes available, an automated gate costing approximately \$20,000 will be installed to ensure physical protection and to make certain that removal of any assets from the premises are properly authorized and supervised. Mansfield Road will be the only accessible entry and/or exit route for the City-owned vehicles and equipment.
3. The Division is developing guidelines to address physical control measures. Any non-personnel entering the compound to conduct business of any sort will be accompanied by a specified Streets & Drainage employee.
4. Plans are being put into effect to send Equipment and Supply personnel and Small Engine Repair Shop personnel to a school that will conduct procedures on Inventory Control.

Timetable: The approximate time of completion for this category, Physical Accessibility Practices, will be June 2008.

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4. Utilization of Automated Computer Systems

Criteria: Automated computer system assets are installed throughout the City to provide reasonable assurance that data is maintained on specific activities.

Condition: The division effectively utilized available automated systems to maintain and monitor data pertaining to work order control, CCAR actions, and other related activities. Security measures in effect were deemed practical and reasonable. When applicable, user identification protection appeared reasonable. However, practices in effect to maintain and control supplies and equipment acquired and in use were in need of management attention. Automated systems in use for the monitoring and control of small engine assets were inoperable and Information Technology Division personnel had not been notified. In effect, work completed in that section for about the last two years had not been recorded.

Impact: Management information systems were not being considered.

Cause: Inadequate supervision of work completed.

Recommendations: The Deputy Director, Streets and Drainage Division, should ensure that discrepancies pertaining to automated system assets are promptly reported to the Information Technology Division for corrective action. In addition, related asset acquisition and maintenance data should be adequately recorded in a timely manner.

Management Plan of Action: A computer system will be installed in each specified area of the Division to maintain asset information on defined activities.

1. Asset acquisition and maintenance information will be maintained and entered on a daily basis in the Lotus System with LAN accessibility. This procedure will allow management to review work activities at any time.
2. Prior to materials and supplies leaving the compound, a correlating work order number and work location will be assigned to the project and entered into the computer.

Timetable: The approximate time of completion for this category, Utilization of Automated Computer Systems, will be June 2008.

Prepared by:

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Staff Auditor

Approved by:

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City Internal Auditor

c: Mayor
CAO
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City Council
External Auditor
Director of Finance
Director, DOS
Deputy Director, Public Works Division